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THE CBN LICENCE CATEGORISATIONS FOR PAYMENTS SYSTEM IN NIGERIA

Introduction

The Central Bank of Nigeria (CBN) in line with its commitment to promote a strong and credible payment in Nigeria has approved new licence categorisations for the payments system. The framework, which offers clarity for new and existing market participants, given the significant evolution and innovation in the Nigerian payments system was published on the 9th of December 2020.

As the Nigerian Fintech sector continues to create a new wave with frequent innovations in the financial industry, the Central Bank of Nigeria appears to be updating its regulations to serve the innovative reality of the sector. The payments system cluster is perhaps one of the most sophisticated layers of the Fintech ecosystem in Nigeria, and is certainly one of the most active amongst user and most attractive to investors.

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In this article, we highlight the key provisions and significant changes introduced by the CBN licence categorisations for payments system in Nigeria.

Categories of Payments System in Nigeria

The most significant change introduced by the circular is the categories of payment system in Nigeria. Under the framework, the payment system licensing is now streamlined into the following four broad categories of permissible activities;

1. Switching and Processing
2. Mobile Money Operations (MMOs)
3. Payment Solution Services (PSSs) and
4. Regulatory Sandbox

Switching and Processing

The permissible activities under this category are switching, card processing, transaction clearing and settlement agents services, non-bank acquiring services and those permissible under super-agent, Payment Terminal Service Provider (PTSP) and Payment Solution Service Provider

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with a minimum share capital of N2,000,000,000.00 (Two Billion Naira Only).

Mobile Money Operations (MMOs)

A mobile money operator (MMO) is permitted to issue electronic money (e-money), create and manage wallets, and manage pool accounts. In addition, an MMO can also perform the activities under the Super-Agent license and the minimum capital requirement for this license is N2,000,000,000.00 (Two Billion Naira Only).

The licensee under this category is also permitted to hold customer funds, while companies seeking to combine operations as MMO and switching operators can do so under a holding structure.

Payment Solution Services (PSSs)

This licence category comprises of the Super-Agent, Payment Terminal Service Provider (PTSP) and Payment Solution Service Provider (PSSP) licenses.

Under this category, an applicant desirous of providing a combination of Super-Agent, PTSP and PSSP services may apply directly for the PSS license. The minimum capital requirement for the PSS license is N250,000,000.00 (Two Hundred and Fifty Million Naira).

Super-Agents: Super-Agents are permitted to undertake agent recruitment management and other activities specified in the CBN Regulatory Framework for Licensing Super Agents in Nigeria.

Companies applying for this license must have comply with the minimum capital requirement of N50,000,000.00 (Fifty Million Naira)

Payment Terminal Service Provider (PTSP): Point of sale (POS) terminal deployment and services, POS terminal ownership and merchant/agent training and support are the range of permissible activities under the PTSP category.
PTSPs must comply with the minimum capital requirement of N100,000,000.00 (One Hundred Million Naira) as PTSP licensees.

Payment Solution Service Provider (PSSP): PSSPs are permitted to deploy payment processing gateway and portals, provide payment solutions and application development services, and provide merchant aggregation and collection services.

PSSPs must comply with the minimum capital requirement for N100,000,000.00 (One Hundred Million Naira) as PSSPs licensees.

Regulatory Sandbox

The Regulatory Sandbox category is aimed at stimulating innovation and deepening financial inclusion.

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A company may apply to CBN under regulatory sandbox and CBN would review the products and solutions of the applicant during its implementation. Companies qualified to make this application include licensed institutions, fintechs, innovators and researchers.

There is no minimum capital requirement under this category, unlike Payment Solution Services, Switching and Processing, and Mobile Money Operations.

OTHER KEY PROVISIONS IN THE NEW CATEGORISATIONS FOR PAYMENTS SYSTEM IN NIGERIA.

In addition to setting out the categories of licence, the CBN also set out some additional matters and key rules that are applicable to all players governed by the payments system circular. Most notable provisions are;

Only MMOs are permitted to hold customer funds

Due to the uncertainty surrounding the licensing of fintechs, holders of different licenses were set up in a way that enabled them to hold customers' funds.

However, with the introduction of the new payment system, it is now clear that other fintechs such as Payment Solutions Service Providers can no longer hold customers' funds.

Holding Company Structure

Fintechs are now prohibited from combining switching and MMO activities under the same company. This is to prevent comingling of activities under the same entity. However, they may operate as different subsidiaries under a holding company and must have clearly delineated activities.

CBN Approval required for collaborations between fintechs and financial institutions

Fintechs operating in payments system sphere must now obtain the approval of the CBN before they can collaborate with other payment companies, banks, and other financial institutions with respect to products and services.

Restriction to permissible activities in the Memorandum and Articles of Association.

Payment service providers must now ensure that the object clauses in their Memorandum and Articles of Association are limited to the permissible activities provided under their license. This means, for instance, a PTSP will not be permitted to have objects in the clause of its Memorandum and Articles of Association that imply it can operate as an MMO.

No-objection from CBN

All fintechs that hold any of the categories of licenses covered under

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the NPS circular, or that intend to acquire a new license, are required to obtain a no-objection from the payments System Management Department of the CBN.

Compliance expectations for Companies

Companies with new licensing requests, as well as those that presently have Approvals-In-Principle from CBN, are required to immediately comply with the provisions of the NPS Circular.

However, companies that have already been licensed by CBN are expected to comply with the NPS circular no later than 30th June 2021.

Conclusion

The CBN has shown a continued commitment towards its drive for financial inclusion especially by supporting the growth of Fintech.

Payment service providers are expected to leverage on mobile and digital services to enhance financial inclusion and stimulate economic activities in the provision of payment services.

Another commendable fact is that there is no provision for a minimum capital requirement for a Regulatory Sandbox applicants thus focusing on the merits of the product or solution in the context of banking and other financial services delivery.

Prior to the Payments System NLC, many of the licensed entities in the payments system had no clarity of the extent of their permissible activities. For instance, it was unclear whether PSSPs could leverage their PSSP license to offer MMO services. The Payments System NLC now makes it clear that this is not permitted. Also, the regulatory framework for non-bank merchant acquiring was uncertain especially with respect to the types of entity able to apply for the license, but with the Payments System NLC, it is clear that only a Switch or Processor can offer non-bank merchant acquiring services.

Thus, the Payments System NLC has somewhat helped in removing numerous uncertainties that plagued the Nigerian payment system, with the implication that this will attract more investment and competition in the fintech sector..

It is also note worthy to state that the capital requirements seem to be innovation friendly and risk based (those with a higher risk profile licenses have higher capital requirements). Accordingly, many fintech companies will have to undertake a recapitalization process to satisfy the CBN capital requirements in tandem with their service or product offerings.

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